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Executive Forum: A New Column By Growth Company Leaders
On Innovation: An Interview With Federal Express's Fred Smith

THE MAGAZINE FOR
GROWING COMPANIES

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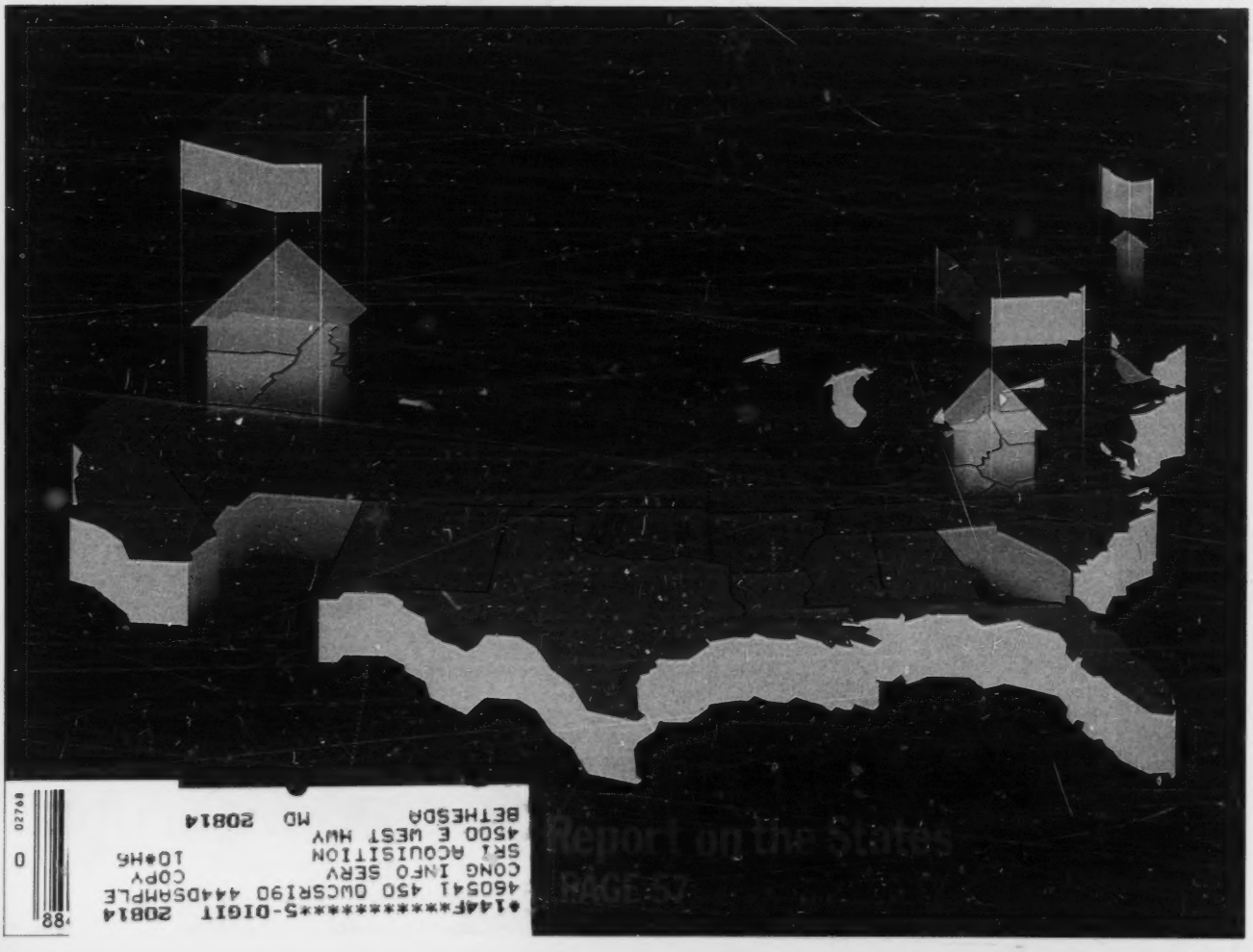
GROWING PLACES

The Best (and Worst) Business Climates in America



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work of corporate structures. Kennedy's attempt to create a culture was, in reality, an experiment in formulating a nonhierarchical corporate structure. But both corporate culture and corporate structure must be managed within the context of the business environment and corporate goals.

Corporate leaders should be wary of this type of drugstore behavioral science during a time when the effective utilization of human resources is critical for both profits and corporate survival.

J. Steven Picou
Professor
Department of Sociology
Texas A&M University
College Station, Tex.

Allan Kennedy's candor in discussing the birth pains of Selkirk is to be applauded. Seldom do we get to hear from the horse's mouth the dark side of what are all too often seen as quick fixes to the numerous ills plaguing corporate America. Nevertheless, readers may have come away with the impression that it was only Kennedy's *approach* that caused his theory to fail; that given a second chance, Kennedy and his crew might just manage to pull it off.

Perhaps. But three key points need to be emphasized: there is no such thing as an organization with no culture; actions speak louder than (management's) words; and management must be obsessed with corporate culture in order to make it consistent with the organization's mission.

Duncan B. Sutherland Jr.
Vice-President, Director of Officing
CRS Sirrine
Houston

SETTING THE RECORD STRAIGHT

I am writing in regard to "Why There Aren't More Women in This Magazine" (July). I am the local Chamber of Commerce representative who is referred to in the story. I am also chairman of the Small Business Council of the Grand Rapids Chamber of Commerce. The Business Woman of the Year honoree, Dorothy L. Zimdar, is a member of our Chamber and was recommended by our Small Business Division to the state, which then selected her to be Michigan's businessperson of the year.

I was asked to stand in for our local congressional representative to present a resolution honoring Mrs. Zimdar. Being a part of the selection process, I am more than familiar with her company, Frames Unlimited. My comment was to the effect that, while I was very familiar with her company, I had never met her personally. I went on to state that this indicates Grand Rapids is no longer a small town.

Neither Mrs. Zimdar nor I were embarrassed about any of the comments that I made in presenting her the resolution. I object strongly to the impressions that may have been left in your readers' minds concerning the Michigan presentation.

Richard F. Fabiano
Vice-President
Hughes Plastics Inc.
St. Joseph, Mich.

Correction:

A chart in "INC.'s Annual Compensation Survey," (September, page 52) incorrectly shows executive compensation by company revenue. The revenue ranges "$5 million to $9.9 million" and "$10 million or more" were inadvertently reversed, as were the ranges of "$250,000 to $499,000" and "$500,000 to $999,999."

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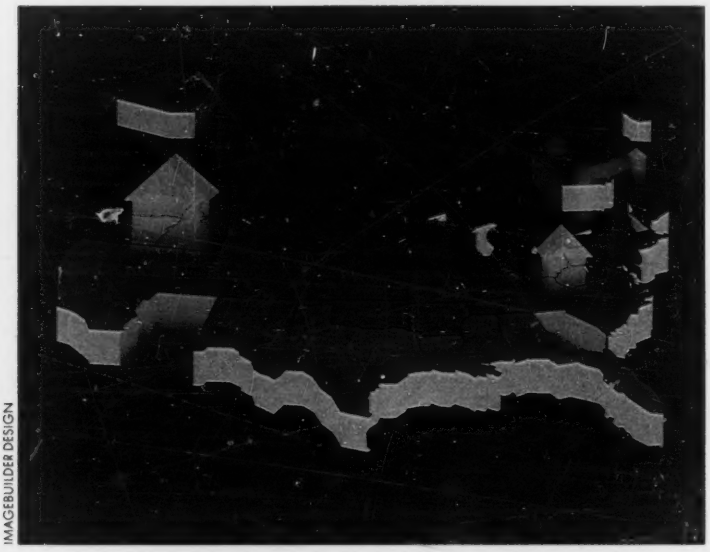

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REPORT ON THE STATES

GROWING PLACES

INC.'s new survey finds the most dynamic state economies in the most unlikely spots.

BY JOSEPH P. KAHN

CENTER OSSIPEE, N.H., IS NOT THE sort of town that makes you think instantly of twenty-first-century America. Deserted by the railroad and skirted by Route 16, the main gateway to the Mount Washington Valley vacationland, it is a small, quiet town lying on the economic fringes of a small, quiet state: the sort of place future generations might drop in on to remind themselves of what life was like in a different, less harried era. In a downtown comprising mostly a post office and a doughnut shop, however, sits the headquarters of a company that symbolizes more the future of the American economy than its past.

"People wander in here asking if we sell antiques," says Douglas Treat, chief executive officer and co-founder (with wife, Nancy) of Yankee Concepts Inc., a state-of-the-art bar-code label manufacturer supplying several *Fortune* 500 clients and the federal government. "We never see any of our real customers. But that's the reason we moved here in the first place—to be in a small town where we can take the time to know people, to have a positive impact on an entire community. In a lot of ways, the whole state's like that."

Treat hastens to add that, because Yankee Concepts does all of its orders computer-to-computer and all its product delivery via overnight mail, being off the beaten track hardly means being out of the commercial mainstream.

"We compete directly with the biggest firms in our industry," he avers, "and we beat 'em to death." With his five-year-old company already grossing around $500,000 annually, Treat admits one of his biggest challenges is budgeting enough time for the community activities and recreational pursuits that steered him toward small-town living in the first place.

Compared with a modest hamlet like Center Ossipee, a more obvious indicator of where America is going—and growing—is Norcross, Ga., about 20 miles from the heart of downtown Atlanta. A sprawling tableau of shopping malls and industrial parks, Norcross is home base for numerous fast-growth Georgia companies; chief among them is Hayes Microcomputer Products Inc., one of the world's most successful modem manufacturers.

"I knew two things from the outset," says co-founder Dennis Hayes, a Spartanburg, S.C., native and Georgia Institute of Technology grad. "First, that I wanted to

RATING THE STATES 1986:
NEW JOBS, NEW COMPANIES, AND THE CLIMATE FOR GROWTH

Rank/State	No. New Jobs (in thou.)	Growth in Jobs	Score	No. New Companies	Business Birth Rate	Score	No. Fast-Growth Companies	% Fast-Growth Companies	Score	Total Score
	1	2	3	4	5	6	7	8	9	10
1. ARIZONA	280.8	27.06%	10.00	1,795	4.07 %	10.00	389	3.29 %	9.52	29.52
2. ALASKA	37.5	20.70	8.43	293	2.92	6.41	72	3.23	9.28	24.12
3. TEXAS	402.1	6.38	4.89	10,379	3.88	9.41	2,004	3.07	8.64	22.94
4. NEW HAMPSHIRE	86.1	22.34	8.83	412	2.18	4.09	118	3.29	9.52	22.44
5. GEORGIA	425.0	19.57	8.15	2,725	2.94	6.47	579	2.77	7.44	22.06
6. MARYLAND	226.5	13.78	6.72	1,772	2.69	5.69	441	3.11	8.80	21.21
7. FLORIDA	747.3	19.72	8.19	6,107	3.04	6.78	1,337	2.43	6.08	21.05
8. DELAWARE	37.5	15.02	7.02	199	2.11	3.88	58	3.35	9.76	20.66
9. MASSACHUSETTS	323.1	12.45	6.39	2,150	2.07	3.75	562	3.41	10.00	20.14
10. VIRGINIA	374.4	17.79	7.71	2,108	2.67	5.63	440	2.60	6.76	20.10
11. CALIFORNIA	1,253.3	12.76	6.47	12,511	2.70	5.72	3,144	2.83	7.68	19.87
12. UTAH	74.9	13.49	6.65	673	2.50	5.09	170	2.75	7.36	19.10
13. COLORADO	121.3	9.28	5.60	1,897	3.05	6.81	417	2.51	6.40	18.81
14. SOUTH CAROLINA	150.8	12.97	6.52	1,129	2.56	5.28	211	2.33	5.68	17.48
15. NORTH CAROLINA	336.3	14.38	6.87	2,002	2.33	4.56	387	2.36	5.80	17.23
16. TENNESSEE	191.8	11.40	6.13	1,671	2.44	4.91	356	2.40	5.96	17.00
17. NEW MEXICO	50.0	10.66	5.95	515	2.29	4.44	141	2.51	6.40	16.79
18. NEW JERSEY	384.0	12.70	6.45	3,043	2.15	4.00	628	2.48	6.28	16.73
19. CONNECTICUT	155.7	11.02	6.04	1,151	1.90	3.22	303	2.69	7.12	16.38
20. NEVADA	48.1	12.00	6.28	463	2.73	5.81	90	1.97	4.24	16.33
21. VERMONT	28.8	14.31	6.85	159	1.50	1.97	53	2.66	7.00	15.82
22. RHODE ISLAND	35.2	9.12	5.57	311	1.56	2.16	93	2.85	7.76	15.49
23. NEW YORK	588.4	8.22	5.34	6,679	1.97	3.44	1,552	2.44	6.12	14.90
24. MICHIGAN	324.7	10.16	5.82	2,839	1.93	3.31	615	2.19	5.12	14.25
25. INDIANA	173.9	8.65	5.45	1,746	2.08	3.78	321	2.15	4.96	14.19
26. MAINE	56.8	14.23	6.83	271	1.41	1.69	78	2.27	5.44	13.96
27. WASHINGTON	160.7	10.34	5.87	1,683	2.06	3.72	371	1.86	3.80	13.39
28. ALABAMA	115.5	8.78	5.48	1,142	2.19	4.13	193	1.83	3.68	13.29
29. OHIO	272.2	6.61	4.95	3,264	1.89	3.19	701	2.17	5.04	13.18
30. MINNESOTA	147.9	8.72	5.47	1,462	1.83	3.00	320	1.99	4.32	12.79
31. MISSOURI	200.5	10.63	5.94	1,765	1.86	3.09	337	1.83	3.68	12.71
32. PENNSYLVANIA	142.2	3.11	4.08	3,349	1.71	2.63	716	2.28	5.48	12.19
33. ARKANSAS	96.4	13.51	6.65	688	1.74	2.72	142	1.60	2.76	12.13
34. HAWAII	26.4	6.58	4.94	364	1.93	3.31	81	1.88	3.88	12.13
35. LOUISIANA	-54.8	-3.38	2.48	1,676	2.41	4.81	345	2.11	4.80	12.09
36. KANSAS	34.5	3.72	4.23	983	1.98	3.47	193	1.99	4.32	12.02
37. KENTUCKY	97.9	8.51	5.42	1,180	2.05	3.69	191	1.63	2.88	11.99
38. ILLINOIS	86.3	1.87	3.77	3,676	1.76	2.78	848	2.12	4.84	11.39
39. WISCONSIN	108.7	5.89	4.77	1,424	1.68	2.53	305	1.93	4.08	11.38
40. OREGON	69.4	7.27	5.11	1,009	1.80	2.91	241	1.69	3.12	11.14
41. MISSISSIPPI	49.7	6.27	4.86	643	1.87	3.13	102	1.48	2.28	10.27
42. IDAHO	26.0	8.51	5.41	328	1.77	2.81	59	1.40	1.96	10.18
43. OKLAHOMA	-69.0	-5.62	1.92	1,421	2.24	4.28	290	1.82	3.64	9.84
44. NEBRASKA	42.0	6.99	5.04	499	1.51	2.00	100	1.49	2.32	9.36
45. SOUTH DAKOTA	16.7	7.43	5.15	177	1.23	1.13	38	1.32	1.64	7.92
46. WEST VIRGINIA	-23.1	-3.80	2.37	474	1.93	3.31	63	1.45	2.16	7.84
47. MONTANA	6.2	2.35	3.89	285	1.46	1.84	60	1.18	1.08	6.81
48. IOWA	29.3	2.83	4.01	659	1.19	1.00	133	1.30	1.56	6.57
49. NORTH DAKOTA	0.3	0.12	3.34	187	1.38	1.59	31	1.16	1.00	5.93
50. WYOMING	-20.1	-9.35	1.00	205	1.80	2.91	43	1.41	2.00	5.91

WHAT THE RANKINGS MEAN

In years past, INC.'s annual Report on the States ranked the business climates of the 50 states through a formula that took into account roughly a dozen variables, ranging from average tax and wage levels to the number of state-funded programs supporting small business. This year's ranking forsakes the controversial notion of business climate, and instead measures how a state is actually doing in stimulating entrepreneurial activity and economic expansion. A state's position on the list reflects its economy's relative success, over a four-year period, in three areas: job generation, new-business creation, and young-company growth.

■ **JOB GENERATION.** The figures in columns 1 and 2, from the federal government's Bureau of Labor Statistics, indicate a state's gain (or loss) in private-sector and civilian public-sector employment between February 1982 and February 1986.

■ **NEW BUSINESSES.** The figures in column 4, compiled for INC. by Cognetics Inc., of Cambridge, Mass., include all companies founded in 1982 or later that had at least 10 employees by January 1986. The "birth rate" in column 5 is this number divided by the total number of business establishments in the state.

■ **YOUNG-COMPANY GROWTH.** Column 7, also compiled by Cognetics, lists all the companies founded in 1978 or later that registered a growth index of at least 20 between the beginning of 1982 and the beginning of 1986. What's a growth index? Simply the company's *absolute* growth in employment multiplied by its *percentage* growth in employment (expressed as a decimal). Say you employed 50 people in January 1982 and 75 people in January 1986. Your growth index would be 25 X .50, or 12.5—not enough to make the list. Figuring growth in this way eliminates any bias in favor of large companies (which might have high absolute numbers) or small (which might have high percentage numbers).

Column 8 is the number of these young, fast-growing companies divided by all a state's business establishments founded in 1978 or later.

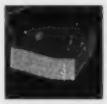
■ **SCORES.** A state's scores (columns 3, 6, and 9) are computer-generated rankings that reflect how it stands in relation to all the other states. The top state in any one category gets a 10, the bottom state a one. Every other state is assigned a number reflecting its relative position on an imaginary scale between the top and the bottom.

All scoring is based on a state's ranking in the percentage columns, not in the absolute-numbers columns. Column 10—the bottom line, so to speak—is the sum of the other three "score" columns.

live in or near Atlanta, the one southern capital with all the amenities of a major-league city. And second, that I wanted to start what would become a large company. The range of resources we have here are the real keys to that future growth."

As distinct as the towns and states they inhabit, Treat and Hayes symbolize something new about the pattern of economic growth in the United States—a pattern captured by, and reflected in, INC.'s 1986 ranking of the nation's hottest spots for growing businesses. Unlike INC.'s previous reports on the states, this year's ranking focuses exclusively on three variables. In the four years from 1982 to 1986, how many new jobs were created in a state? How many new companies were founded? And how many young companies experienced significant growth? Taken together, these three measures provide a strong indication of how successful each state has been at nurturing new businesses and encouraging expansion. The chart on page 58 reports the results. Accompanying the chart is a note explaining definitions, cutoff points, and other methodological matters.

Some of the states at the top of the list are those you would expect to find there: Alaska (#2) and Texas (#3), both hit hard by the oil crunch of the last 12 months but still proven performers over the four-year period; Maryland (#6) and Virginia (#10), each aided by a generous influx of federal dollars; and such perennial high-tech fliers as Massachusetts (#9) and California (#11). But the presence of New Hampshire (#4), Georgia (#5), and, above all, top-ranked Arizona in the list's First Five suggests a diversity in the geography of economic growth that has gone unrecognized by most politicians and pundits. Without California's Silicon Valley or Massachusetts's Route 128, without vast mineral resources or indeed much of anything else to build on, these three states have somehow constructed entrepreneurial economies that handily outstrip their sovereign competitors. A look at the ingredients of their success reveals a surprising variety of paths to prosperity—and a glimpse of economic futures both more diverse and more dispersed than anything in the past.



ARIZONA: POWER FROM THE PEOPLE

In 1969, LeRoy Ellison, a young Harvard graduate, left his job at General Electric Corp. to start Capex Corp., one of the Phoenix area's first software companies. Knowing little about business, having no local venture capital sources to turn to, Ellison still managed to cobble together the financing for a company that would grow to about $20 million before its acquisition, in 1982, by Computer Associates International Inc. Since then, Ellison has gone on to become Arizona State University's first Entrepreneur-in-Residence and to lend his support to numerous other high-tech ventures.

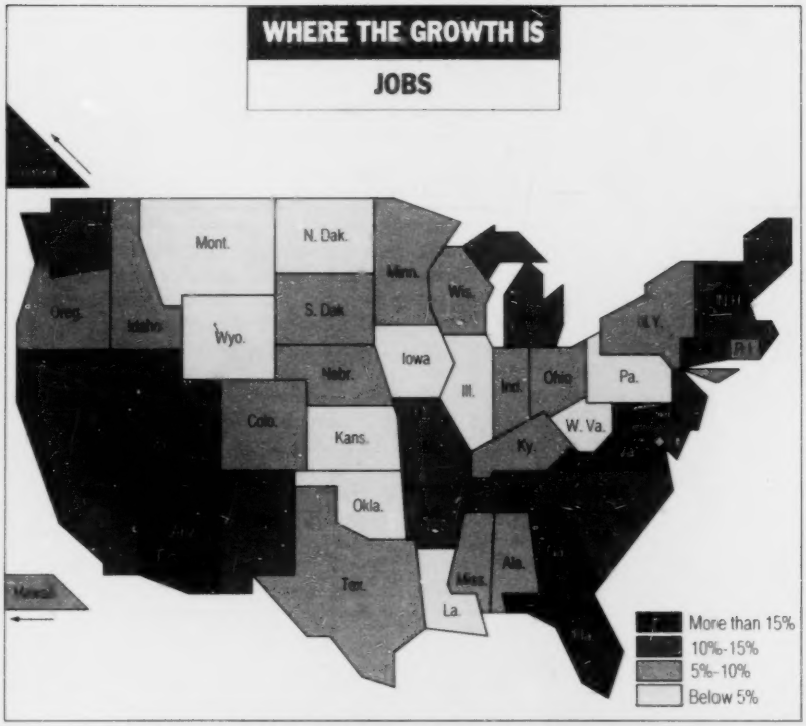
"It isn't too surprising that we have a significant number of start-ups here right now," says Ellison. "This state has a very favorable regulatory climate, our tax rates are reasonable, and our labor laws are not nearly as strict as, say, California's. Plus we've got a huge big-company presence in computers and semiconductors, and that tends to spin off a lot of new ventures." But the critical factor, he adds, may be people—and the amenities like housing and sunshine that Arizona can provide them with.

"I'll tell you," he says, "it's an asset to locate in a community where people want to live. About one in 10 can't take the heat here, but the other 9 get extremely charmed with our circumstance."

So charmed, indeed, that the state's population growth between 1982 and 1986 hit 10.2%, tops in the continental United States. Arizona has long been known for its appeal to comfort-seeking retirees. But in recent years it has begun to attract younger professionals and businesspeople looking for opportunities—people like Edward Beauvais, who five years ago launched America West Airlines Inc., a Tempe-based regional carrier that now has some 3,000 employees. Beauvais and his fellow immigrants have helped push the state to the top of the chart in new-job growth percentage (27%) and business birth rate (4%).

This growth has, moreover, been remarkably diverse. Arizona has literally been reinventing its economy over the past two decades or so, balancing the demise of its mining and agricultural concerns (the famous "Four Cs" of copper, cattle, cotton, and citrus) with a quantum leap ahead in areas like aerospace and high tech, construction, and finance-insurance-real estate. "Nobody is capable of reversing the decline in, say, the domestic copper market," notes Rita Carrillo, director of Arizona's Department of Commerce. "That condition is permanent. But we've been able to give economic development a much broader perspective, beyond the major manufacturing facilities and more into service industries, financial institutions, tourism, etc."

Economic growth and diversity have been helped along by the "favorable regulatory climate" that is a favorite of state boosters everywhere—but that, in Arizona's case, seems more than just a cliché. This month, for instance, Arizona becomes only the third state in the nation to allow local banks to be owned by out-of-state institutions. The development has already touched off a wave of banking acquisitions, and the hope is that it will increase the pool of capital available to local companies. "I don't see how it will hurt," reflects James S. Lee, president of the Phoenix-based Thunderbird Bank, a leader in the small-company lending market. "Certainly the consumer



NET GROWTH IN EMPLOYMENT, 1982–1986: high job-growth figures go hand in hand with high rankings on the overall chart, as evidenced by Arizona (#1), Alaska (#2), New Hampshire (#4), Georgia (#5), Florida (#7), Delaware (#8), and Virginia (#10).

NIGEL HOLMES

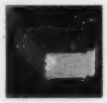
SIGNIFICANT NEW BUSINESSES are companies founded in 1982 or later, with at least 10 employees by January 1986. The "business birth rate"—the number of these companies per 1,000 business establishments in a state—is highest in the Southwest and Southeast, lowest in the Midwest.

will benefit from more competition in products and services. I don't know who'll go after the small-business market, but when you look at the rise of venture capital concerns here over the last three years, investment in growth companies seems like a pretty strong trend."

The reins on other capital sources have loosened as well, thanks in part to attitudinal changes within the securities division of the Arizona Corporation Commission. Stiffening its merit-review regulations in the early 1970s after a series of well-publicized bankruptcies, the local equivalent of the Securities and Exchange Commission once reflected the opinion that, as Gregory C. Michael puts it, "any Arizona company needing money [via public markets] must be run by a bunch of crooks."

Michael is vice-chairman of American Surgery Centers Corp., in Scottsdale (#29 on the 1986 INC. 100). "They took a very protective attitude toward the local citizenry," he explains, noting that ASC's initial offering of $2 million in 1980 was shielded from home-state investors for about 30 days—precisely long enough for the value of the stock to triple. "Sometimes that hurts the same people it was supposed to help. But that mentality has really changed in the last four years. The venture capital's here, there's a more liberalized outlook, the governor [Bruce Babbitt, rumored to have his eye on the Democratic national ticket] is very pro-business. . . . Right now, Arizona is a fantastic place to be in a start-up mode."

The state's position at the top of the 1986 INC. list is testament to that. Will it stay there or will it prove to be a flash in the pan? "We're a young state," points out Arizona's chief economist, Ed Sloat, "and young people do not move around haphazardly. They go where they think the opportunities are. What California was 20 years ago, Arizona is today."



GEORGIA: ALOFT ON THE ATLANTA AIRLIFT

Tim Titus can tell you about airplanes. Eight years ago he quit his job as national sales promotional manager for Coca-Cola Co. ("a great company to work for, but I'd become an expert, and when you're an expert in a company as big as Coke, you're effectively retired"), started his own specialty-products firm in his basement, and began logging a lot of air miles looking for accounts. The coupons were nice, he says, but the frequent flying didn't always prove cost-effective.

"When you walk in blind to a company like Anheuser-Busch," remembers Titus, "it can take a long, long time before they'll buy anything from you. I must've made 20 trips to St. Louis before I closed my first sale, and that ate up a hell of a lot of cash."

Now that his company, Markatron Inc., in Norcross, has taken off (twice on the

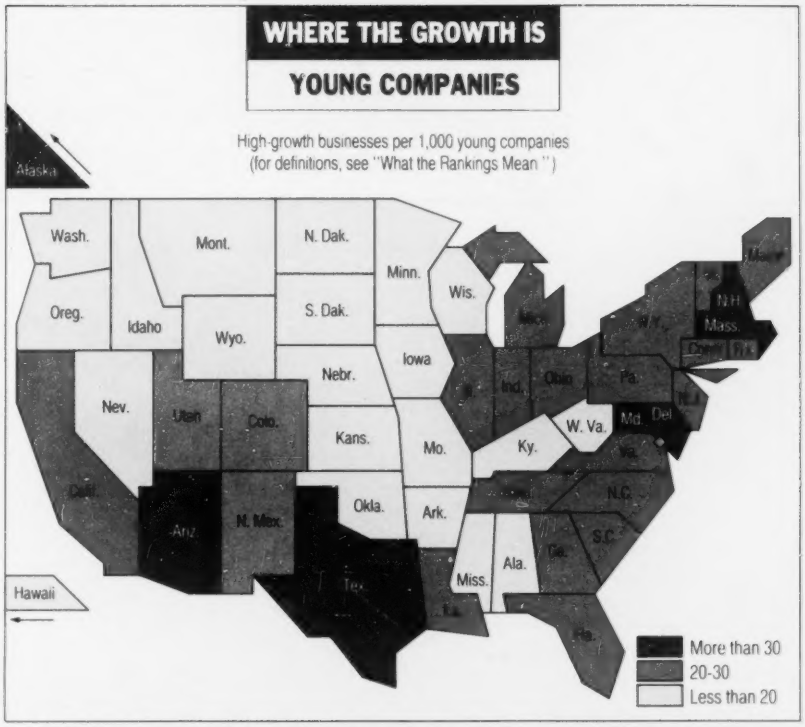
INC. 500, it currently has annual sales of about $5 million), Titus doesn't work the friendly skies quite so much anymore, even though success has still left him strapped for working capital. Instead, he stays near Markatron's parent city—Atlanta, hub of the Southeast, cradle of the New South, and the main turbine driving Georgia's economic engine.

"The way manufacturing's going, it can be done almost anywhere in the world," posits Titus, sitting in an office adorned with samples of his product line: coolers, mirrors, jewelry, and dozens of other collectibles stamped with the familiar logos of Budweiser and Coke. "The real survivors will be [marketing firms] that package and distribute the merchandise, and that just plays to our strength down here. Atlanta will become the home base for more and more distribution companies that thrive on the advantages of this transportation system."

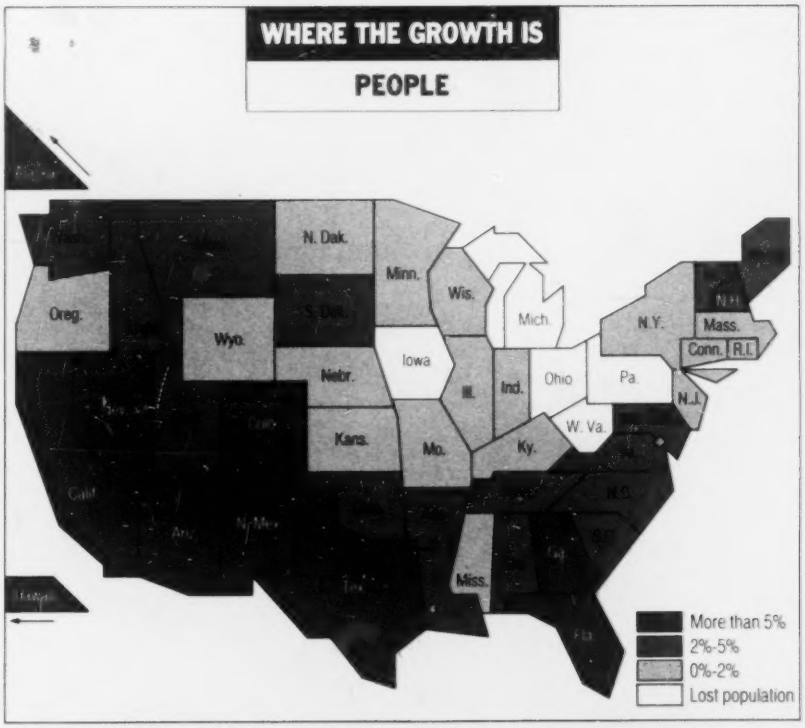
Already, it's home to more and more people. Black and white, foreigner and native, they are migrating to the South's most socially and racially integrated city in record numbers (over 90,000 new Atlantans last year alone). That influx has helped Georgia, the economic darling of Dixie, to spawn 425,000 new jobs over the past four years. So great is the stream of opportunity-seekers that Atlanta, blessed with an absence of natural boundaries, may someday metamorphose into one solid city all the way to Lake Lanier, 50 miles to the north.

To Gov. Joe Frank Harris, the evolution of his state's economy from an agricultural to an industrial base is as broad and straight as the runway at Hartsfield Airport—and as cosmopolitan in its implications. "This state has always been aggressive about bringing foreign business here. There are 30 international banks in Atlanta alone [half a decade ago there were only 5] and about 60,000 Georgians employed by foreign firms." But, he adds, "We've [also] had excellent success getting small and midsize companies to come here and grow with us—in fact, 60% of our growth comes from companies started right here."

Harris's fellow politician-with-a-passport, Atlanta mayor Andrew Young, is already known as the only municipal CEO with a fully developed foreign policy. But Harris, Young, and their colleagues must be doing something right: in 1985, 20% of the 219 companies locating in metropolitan Atlanta had overseas addresses. Georgia's public-education system, boosted by last year's $1-billion legislative commitment, is rapidly spawning a research network of national renown at its upper ends. "There's been a tenfold increase in funded research here," notes Dennis Hayes of Hayes Microcomputer. "I interview engineers who say they don't know if they can come here, because we don't have a technical community. Well, we do. And our universities are getting stronger in disciplines like information



FAST-GROWING YOUNG COMPANIES are businesses founded in 1978 or later with a "growth index" of at least 20 between 1982 and 1986. Regional leaders: the Southwest, Southeast, New England, and Middle Atlantic states—plus, surprisingly, the industrial heartland, Illinois through Pennsylvania.



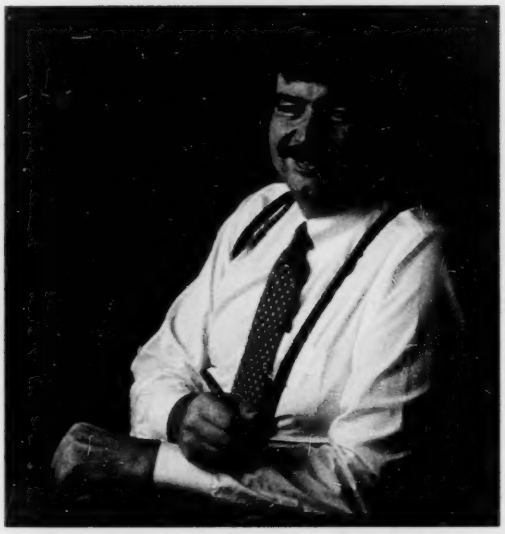
POPULATION GROWTH, 1982–1986, reflects the well-documented migration from northeastern and North Central states to the Sunbelt. The exceptions that prove the rule: Alaska (#2) and New Hampshire (#4). Five states, mostly in the Sunbelt, lost population over the four-year period.

"There were no obstacles to getting started in Arizona. The attitude was, if you see your opportunity, you're free to pursue it."

EDWARD BEAUVAIS,
AMERICA WEST AIRLINES,
TEMPE, ARIZ.

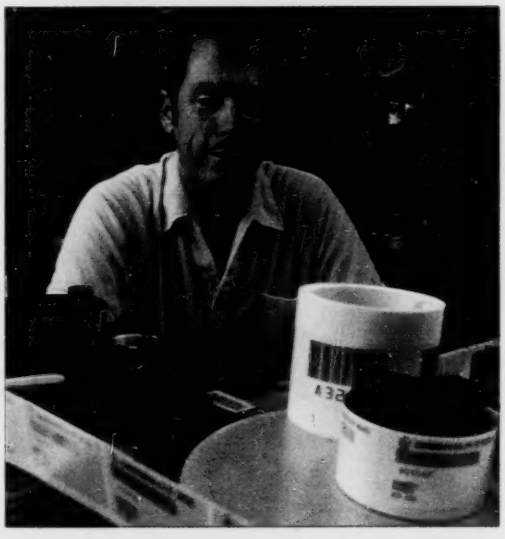
"I knew at the outset that I wanted to live in or near Atlanta, the one southern capital with all the amenities of a major-league city."

DENNIS HAYES,
HAYES MICROCOMPUTER,
ATLANTA



"We never see any of our real customers. But that's why we moved here in the first place—to be in a small town. The whole state's a little like that."

DOUGLAS TREAT,
YANKEE CONCEPTS,
CENTER OSSIPEE, N.H.

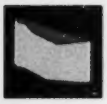


systems and marketing, areas you have to be able to draw on when you're in the business of developing growth companies."

Measured against Atlanta, of course, much of the rest of Georgia looks poor and rural by comparison. Not so long ago, however, Atlanta itself was just another layover spot on the way to somewhere else. Now it has reached what economists call the self-sustaining level, where growth only leads to more growth.

How can that be? Go ask Randy Perkinson. Perkinson, 33, co-founder and president of Compack Inc., an Atlanta-based packaging-design firm, started his company in 1980 with 4 employees and 500 square feet of work space. Today, he employs 52 people, occupies 18,000 square feet, and serves such major firms as Coca-Cola, Georgia Pacific, and Kimberly-Clark. Atlanta, says Perkinson, is "young enough that opportunities already taken in other cities are still here.

"If I wanted to get out of this business and into another one," he adds, "I'd go to a city slightly further along than Atlanta, see what they've got that we don't have yet, and then come back and do it here, because our growth potential seems about limitless."



NEW HAMPSHIRE: PROSPERITY BY PROXIMITY

Every four years the Presidential primary parade rolls through New Hampshire like some wayward circus train, inspiring dozens of national news features about this quaint little state somewhere to the north of Boston that turns farmers into political forecasters and political nobodies into front-runners. Often these stories create the impression that New Hampshire residents don't do much between campaigns except make George McGovern buttons and shovel snow. Not so. Truth is, this little nobody of a state (population just now reaching 1 million) is a legitimate front-runner in the national campaign to generate jobs and create growth companies. And it isn't just because Rather, Brokaw, Jennings, et al. book up all the hotel suites six months in advance.

"If you want to look at the macro issues for New Hampshire," says Rick Barber, president of Satter Cos. of New England, a real estate development firm in Lincoln, N.H., "start with the overall strength of the New England economy, because that's really the prime for our pump. Boston is one of the most vigorously growing cities in the country, and New Hampshire is incredibly well positioned to capitalize on conditions like taxes and housing that can make that city unappealing to start a company in."

Barber, former director of economic development under governors Hugh Gallen and John Sununu, has worked both sides of the public-policy fence. He believes that what states try to do in the way of generat-

PHOTOGRAPHS/ TOP: DON B. STEVENSON. MIDDLE: ROGER ALLEN GRIGG. BOTTOM: STU ROSNER

BETTER BOAT BUILDING
Or, What's a State to Do?

She was the luxury liner everybody wanted, one of the flagships of America's new industrial fleet. When General Motors Corp. launched a national lottery for its Saturn plant location site in 1985, more than 30 states became ticketholders in the $5-billion, 6,000-job sweepstakes. For eventual winner Tennessee, the loot is yet to be counted; like the *Titanic*, however, the great Saturn treasure hunt was really a relic of a bygone era. As much as states still covet grand vessels like Saturn, they have also learned that larger fleets and better shipyards add up to sounder insurance policies against stormy economic weather.

"A state can't simply identify one or two things and say, 'This will fix the economy,' " says Scott Fosler, vice-president and director of government studies of the Committee for Economic Development, a research organization in Washington, D.C. "It needs a wide range of [initiatives] that interact with each other. That's why you see the shift now away from attracting outside industries to promoting entrepreneurial climates within states."

James Gollub, senior policy analyst at SRI International, expands on the concept. States are beginning to look at their economic environments, he says, "like asset portfolios they can watch over and invest in appropriately. Government can do things an individual market can't. Good economic infrastructure helps industries adapt more effectively."

What's new about the current climate is that states are beginning to recognize, and act on, all the elements of good economic infrastructure—tax policies, regulatory climates, transportation facilities, educational systems, and so on. As part of their overall economic development strategies, for instance, such states as Alabama, Florida, Texas, Arkansas, North Carolina, and South Carolina are pouring unprecedented sums into public education in general and vocational-technical education in particular. Tennessee has made the same commitment, a factor GM cited in sending Saturn there. Still others hope to emulate such successful technology-transfer programs as Pennsylvania's Ben Franklin Partnership and Ohio's Thomas Edison Program, which match academic resources and researchers with support systems for launching commercial technology ventures.

Gollub points out, however, that states can take other measures that don't necessarily require spending big bucks. For example: identifying market opportunities and/or capital resources, then brokering this information to the business community; initiating regulatory changes in banking, insurance, and telecommunications; and establishing loan guarantees, loan-loss reserves, and revolving investment pools. Robert Friedman, of the Washington-based Corporation for Enterprise Development, adds that it's not so much individual initiatives that count as "putting them together in a context." What used to be thought of as "social" policies—education, welfare programs, and the like—are being combined with purely economic policies, and the whole is greater than the sum of the parts.

Herman Leonard, associate professor of public policy at Harvard University's Kennedy School of Government, agrees. Once, he remembers, he saw a "Doonesbury" cartoon in which Vice-President George Bush repeated the old saw that a rising tide raises all boats, and was challenged with the question, "What if you don't *have* a boat?"

"Good economic policy," says Leonard, "is making sure *everyone* has a boat."

ing growth doesn't amount to a hill of beans compared with larger economic forces at work in the region. This is a fairly common opinion in New Hampshire, where, as one Concord state official puts it, "We allow the entrepreneur to succeed, or fail, fairly easily here, and we do that three ways: by minimizing the downside risks, by letting him keep more of his income, and by not plowing taxpayer dollars into private ventures." To Barber's mind, the user-friendly scale of doing business in New Hampshire is of inestimably more value to a growth economy than any single state initiative.

"State venture capital pools are great," says Barber, "but most entrepreneurs would rather be able to take a regulatory issue to the statehouse and be confident they can work something out. I do business in both Vermont and New Hampshire—both small, rural New England states. The difference in their attitudes, however, is like night and day." On the chart, the difference between these otherwise similar states is 17 places.

The third macro issue, Barber adds, is a $1.5-billion annual tourist trade, a boon helped, no doubt, by the state's quadrennial exposure on network TV. That and the absence of a state sales tax brings in plenty of visitors. "People drive here from New York and Connecticut," Barber points out, "leave their money, but don't put their kids in our schools. Everything else flows from those three factors."

Plenty of states can boast proximity to growth, a good business climate, and a healthy degree of tourism. New Hampshire's peculiar success has been to mix the three ingredients together and come up with a diversified economy. The state's 22.3% rise in employment is second best on the '86 list. So diversified has that employment growth been that in the period from 1981 to 1984, New Hampshire ranked in the top five nationally in four distinct job-growth categories: manufacturing (5.7%), nonmanufacturing (14.1%), trade (17.7%), and service (18.6%). Nor does the state depend on a few large employers. In New Hampshire, companies with fewer than 100 workers account for 54% of all employment and 95% of all business establishments.

The Sandwich Research Group Inc., a firm providing market-research and strategic-planning services for several New Hampshire–based companies, is located in tiny Center Sandwich, N.H. Founder and chairman Jourdan Houston likes to say that she and her company are "right on the trailing edge." By "the trailing edge," Houston explains, she not only means that her state follows Boston's lead, but that it offers a wide-open market to small service firms like hers, which face little competition from larger, more entrenched firms statewide.

"A lot of us started right in the middle of the last recession and are still around," says Houston. "I'm not sure that would be true in the real world. Then again, I'm not sure that this *isn't* the real world, after all."

Real enough—and getting smaller all the time. For Doug Treat, being on the trailing edge means sitting in the driver's seat. When he moved Yankee Concepts to Center Ossipee a year ago, forsaking a much tonier location in Manchester's spanking new Technology Center, Treat's main concern was how to save cash in a heavily debt-financed business (after moving, Yankee Concepts's square-footage costs dropped from $12 to $3). Now, says Treat, his dream is to help build an alternative-model industrial park in Center Ossipee, one that comprises small technology companies like his that can play in national markets without having to sit in the mainstream.

"Give me a telephone line and a Federal Express drop," he smiles, "and the rest of the country is mine." □

Research assistance for this report was provided by Karen E. Angeline, Debra Rosenberg, and Lilia Wiener. The chart on page 58 was compiled by special projects editor Sara Baer-Sinnott.